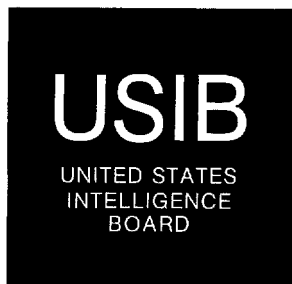


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State Dept. review completed

DIA review(s) completed.

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USSR-FRANCE

Soviet party leader Brezhnev's three-day official visit to France continued the trend toward closer relations between the two countries. The communiqué issued at the end of the visit on Saturday showed a marked similarity of views on international questions.

Brezhnev is undoubtedly gratified that the French have moved much closer to the Soviet position on concluding the European Security Conference. The communiqué states that "good prerequisites have been created for concluding the conference at an early date and for holding its third stage at the summit level." France previously had resisted making this commitment and had fought to extract additional Soviet concessions on substantive matters.

Several days ago, however, the acting head of the French delegation at the security conference negotiations in Geneva claimed that the French had discovered a new Soviet reasonableness during preparations for the Brezhnev visit. He said that a major change in the French attitude toward the conference had resulted, and this about-face apparently was reflected in the communiqué. Many other West European states, however, do not share France's new eagerness to move on to the third stage, and the French move could become controversial.

The communiqué shows a near identity of views on the Middle East and Cyprus. Soviet press summaries have stressed this similarity of viewpoints.

Considerable attention was given to the further development of bilateral economic relations. The two sides signed a five-year economic cooperation agreement and pledged their intent to double trade during that period. The French agreed to extend credits to finance Soviet purchases of French-built machinery and factories. A contract was signed under which the Soviets will supply natural gas to France over a 20-year period beginning in 1976 at a price yet to be announced.

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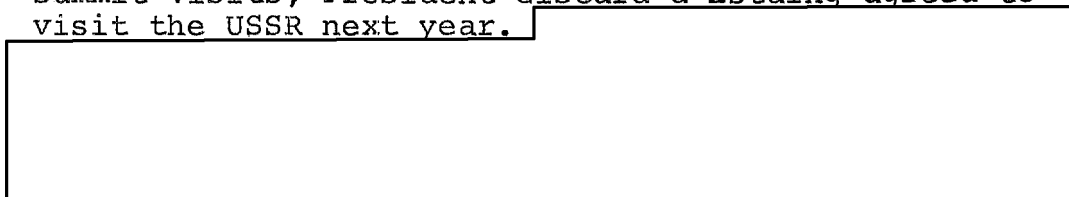
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Brezhnev also met with French Communist Party leader Marchais on the last day of his visit, in what was described as an atmosphere of "friendship, solidarity, and complete mutual understanding." The French party endorsed the Soviets' detente policy, but there was no sign that the two parties reached agreement on the more controversial issue of how the French Communists should manage their alliance with the non-Communist left.

Brezhnev reportedly looked fatigued on several occasions during the visit and canceled or delayed his appearance at some social functions. He has been suffering intermittently from the flu over the past six weeks, but he is said to have been in good spirits by the end of his stay.

In keeping with the recent pattern of exchanging summit visits, President Giscard d'Estaing agreed to visit the USSR next year.

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CYPRUS

The newly reinstated President of Cyprus, Archbishop Makarios, and Turkish Cypriot Vice President Denktash appeared to leave themselves some room for maneuver in future negotiations in their public comments following Makarios' triumphant return to the island on Saturday.

Makarios said he would not accept a fait accompli brought on by the Turkish invasion, nor would he countenance the forced transfer of populations or a solution tantamount to partition. He struck some conciliatory notes, however, citing the need to abandon chauvinistic tendencies of the past and his desire for negotiations with the Turkish Cypriots. Makarios noted that this was not the time to express his views on a solution.

The archbishop was reportedly persuaded to adopt a more flexible approach at his meeting in Athens earlier this month with Greek Prime Minister Karamanlis and acting president Clerides. The archbishop is not likely to commit himself to a specific negotiating position until he consults with leading members of the Greek Cypriot community.

Denktash gave a generally cool reception to Makarios' public remarks over the weekend. He noted that Turkish Cypriots consider Makarios the leader of the Greek Cypriot community and no longer acknowledge him as head of state. Denktash added that Turkish Cypriots want to keep the door to negotiations open, but only if the Greek Cypriots--and Makarios in particular--accept the new realities on the island.

Denktash repeated his call for a bizonal geographic federation but said the powers of the two regions in relation to the federal government and the size of the Turkish region were negotiable. The Turkish Cypriot leader warned that if Makarios is uncompromising, the Greek and Turkish Cypriot sectors of the island will gradually evolve into separate states.

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According to the US embassy in Nicosia, the tension and fear of violence that preceded Makarios' return had subsided by the time of the archbishop's arrival because of public pledges from the extreme right that it would not make trouble. Elaborate security precautions also helped, as did Denktash's public reassurances that Makarios' return would not bring new Turkish military operations.

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MBFR

The Western allies have agreed to the US suggestion that they make no reference to a counterproposal in their response to the latest Soviet proposal at the force reduction talks.

The Soviets had proposed recently that each participant in the force reduction talks freeze the size of its armed forces in Central Europe for the duration of those talks in Vienna.

The West Europeans had wanted to suggest a possible counterproposal because they fear an adverse public reaction if they appear to reject the Soviet proposal out of hand. Reference to a counterproposal, however, might imply a willingness to begin serious negotiations on an agreement to freeze the level of forces, which in turn could impede progress on an overall reduction agreement.

The North Atlantic Council has authorized the Western negotiators in Vienna to inform the Eastern side only that they are studying the Soviet offer and have objections to it.

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RHODESIA

Rhodesian Prime Minister Smith announced on December 7 that his government has rejected the preconditions for a constitutional conference set by presidents Kaunda of Zambia, Nyerere of Tanzania, and Khama of Botswana after their meetings with Rhodesian nationalist leaders in Lusaka last week.

As Smith explained the impasse, he had agreed to proceed with a constitutional conference as soon as the insurgents ceased all terrorist operations in Rhodesia. On December 6, however, the three African presidents in Lusaka told Smith's envoys that the Rhodesian insurgents would not accept a truce unless Smith agreed to immediate majority rule as a precondition for the constitutional conference.

Long-standing divisions among Rhodesian nationalists have complicated efforts to formulate a common bargaining position. These may have been eased on December 8 when representatives of four factions meeting at Lusaka announced the formation of a united front. The merger

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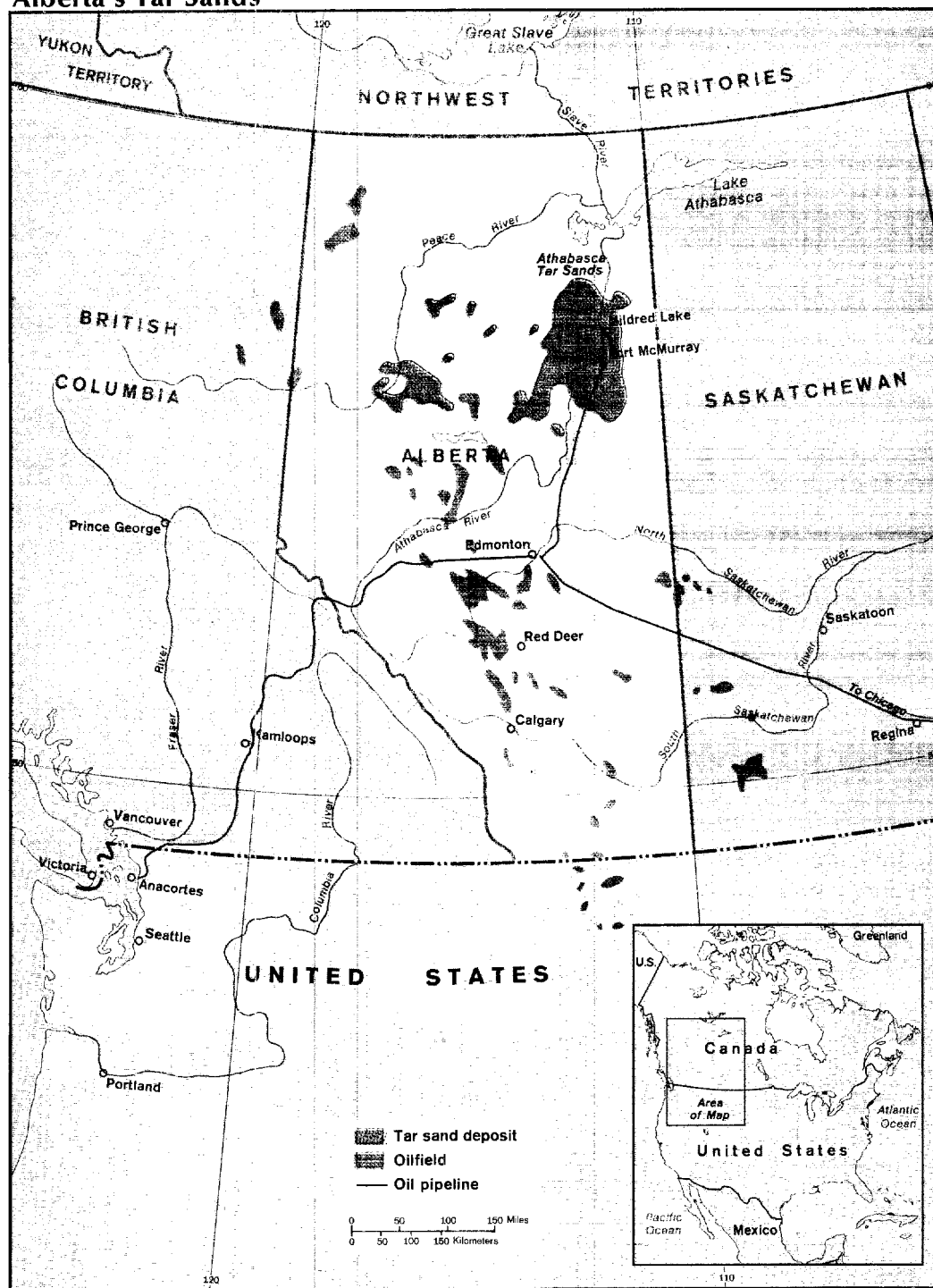
includes the African National Council, the Zimbabwe African Peoples Union, the Zimbabwe African National Union, and the Front for the Liberation of Zimbabwe, a smaller insurgent organization.

Although the joint manifesto declares that a continuation of the armed struggle in Rhodesia is inevitable, it does not commit all parties in the merger to further fighting, nor does it specify any terms for a constitutional settlement. Despite the setback to their mediation efforts, the way is still open [redacted] to press both sides toward a negotiated settlement. [redacted]

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Alberta's Tar Sands



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CANADA

Canada's four tar sands oil projects are in jeopardy. If they are delayed or terminated, the country's slide toward becoming a net oil importer will accelerate and Ottawa may cut exports to the US more sharply and sooner than planned.

Rapidly escalating costs and Ottawa's policy of raising taxes and imposing controls on domestic oil prices have forced several companies to reassess the viability of developing the deposits. Uncertainty over Canadian export policy and federal-provincial wrangling over petroleum tar policy have also discouraged the companies.

Ottawa had hoped that production from the tar sands would reach 300,000 barrels per day by the early 1980s, compared with current output of 50,000 b/d. One member of Syncrude, a US consortium which had planned production of 125,000 b/d by 1982, and the US participant in the Shell project that would have begun production of 100,000 b/d in 1980 have announced that they want to pull out.

Two other tar sands projects may be shelved indefinitely. Plans for each of these projects included facilities to produce more than 100,000 b/d beginning in about 1982. The Japanese in the past have expressed interest in participating in tar sands development, but as yet there is no indication they would be willing to do so under Canada's present petroleum policy.

All four projects were intended to exploit the Athabasca tar sands, the largest of Alberta's four tar sands deposits. They contain an estimated 300-350 billion barrels of recoverable oil, about equal to proved reserves in the Persian Gulf.

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PORTUGAL

The Portuguese National Military Assembly, formed by the ruling Armed Forces Movement to "democratize" the military, held its first meeting on December 6 to consider, among other subjects, the future role of the armed forces in politics.

The assembly is composed of about 200 officers, who are elected by each of the three services, and the members of the Coordinating Committee, the Movement's executive body. President Costa Gomes and Prime Minister Goncalves also attended.

A communiqué published after the meeting emphasized the "indissoluble unity" of the Movement. Contrary to earlier speculation, Portugal's emergency economic plan was not discussed; government ministers are still working on it.

Speculation has mounted over the possibility of the Armed Forces Movement's participating in the constituent assembly to be elected in March. The Movement's program promises that the military will withdraw from politics after the national assembly is elected, but there is no comment on its function in the constituent assembly.

There are a number of reports indicating that the Movement is deeply divided over this issue. Some of the more leftist-oriented members, fearing that the public will vote a conservative majority into the constituent assembly, favor running Movement candidates in the elections. Others have proposed that the Movement be given 15 percent of the seats; a third group believes they should stay out of the constituent assembly and monitor political events from their posts in the provisional government.

Meanwhile, the Portuguese Communist Party and the Communist-dominated Portuguese Democratic Movement have called for the Movement's active participation in the constituent assembly. The two groups may be attempting to woo Movement members to run as candidates under their banners.

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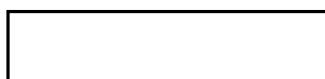
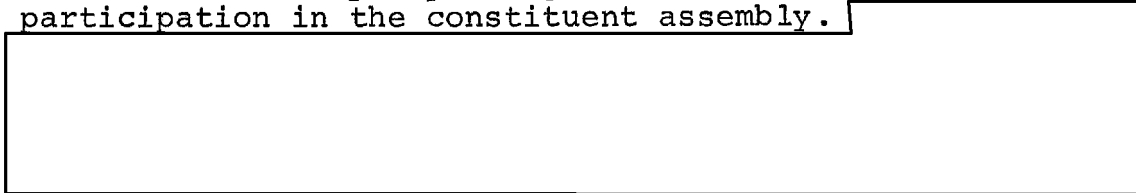
The topic has also caused considerable debate outside the Movement. Vice Admiral Pinheiro Azevedo, Costa Gomes' deputy in the advisory military junta, favors the appointment of Movement members to the assembly, while army Chief of Staff Fabiao has announced his opposition to the presence of any of them in the assembly.

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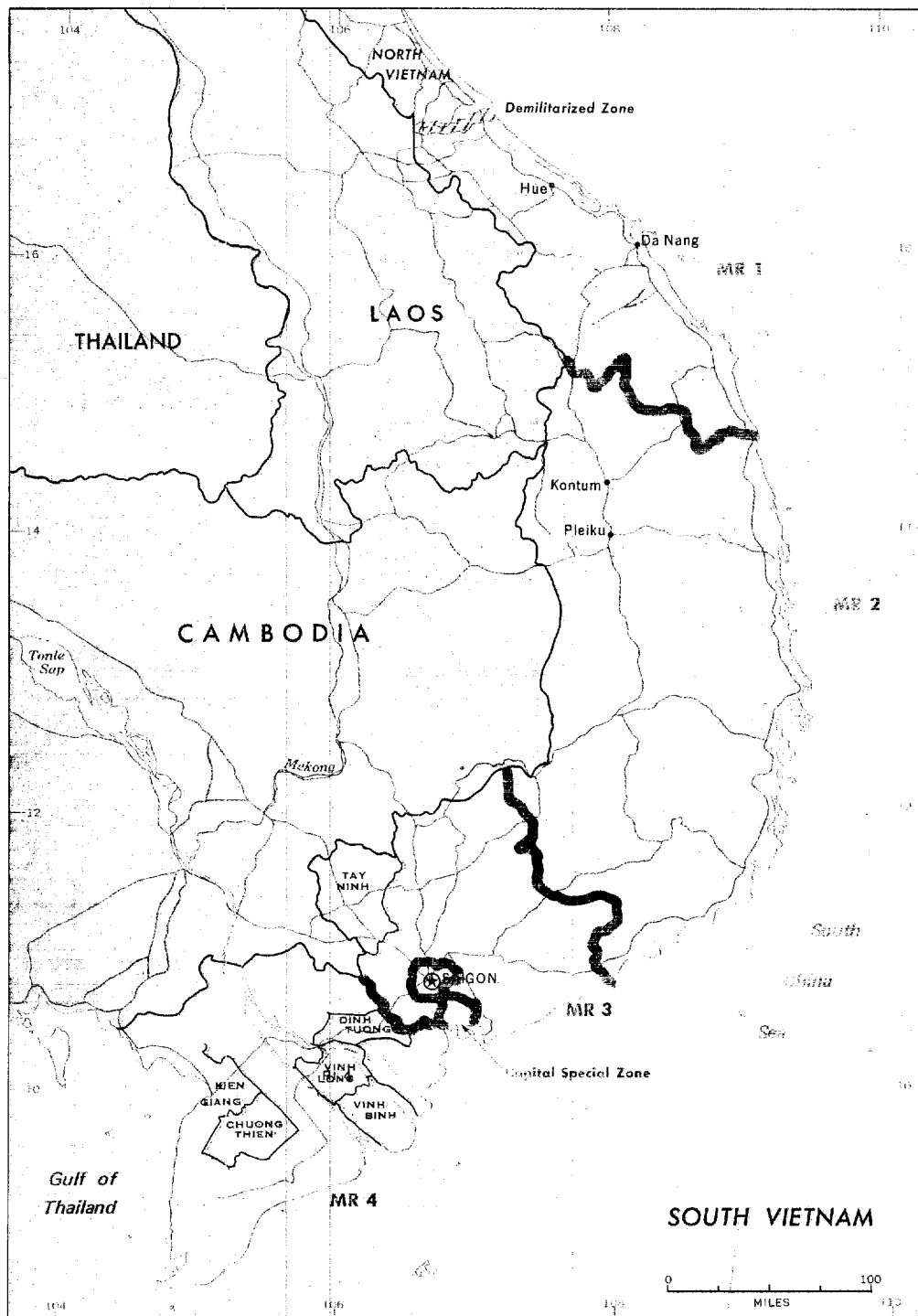


Publication of the final version of the electoral law has been delayed pending a decision on Movement participation in the constituent assembly.

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SOUTH VIETNAM

Communist forces have sharply increased the level of their attacks in the Mekong Delta.

Most of the action, which began on December 5, has been concentrated in the delta's central and southern sectors. District towns, government military positions, and key lines of communication in Chuong Thien, Kien Giang, Vinh Long, and Vinh Binh provinces have borne the brunt of Communist ground and shelling attacks.

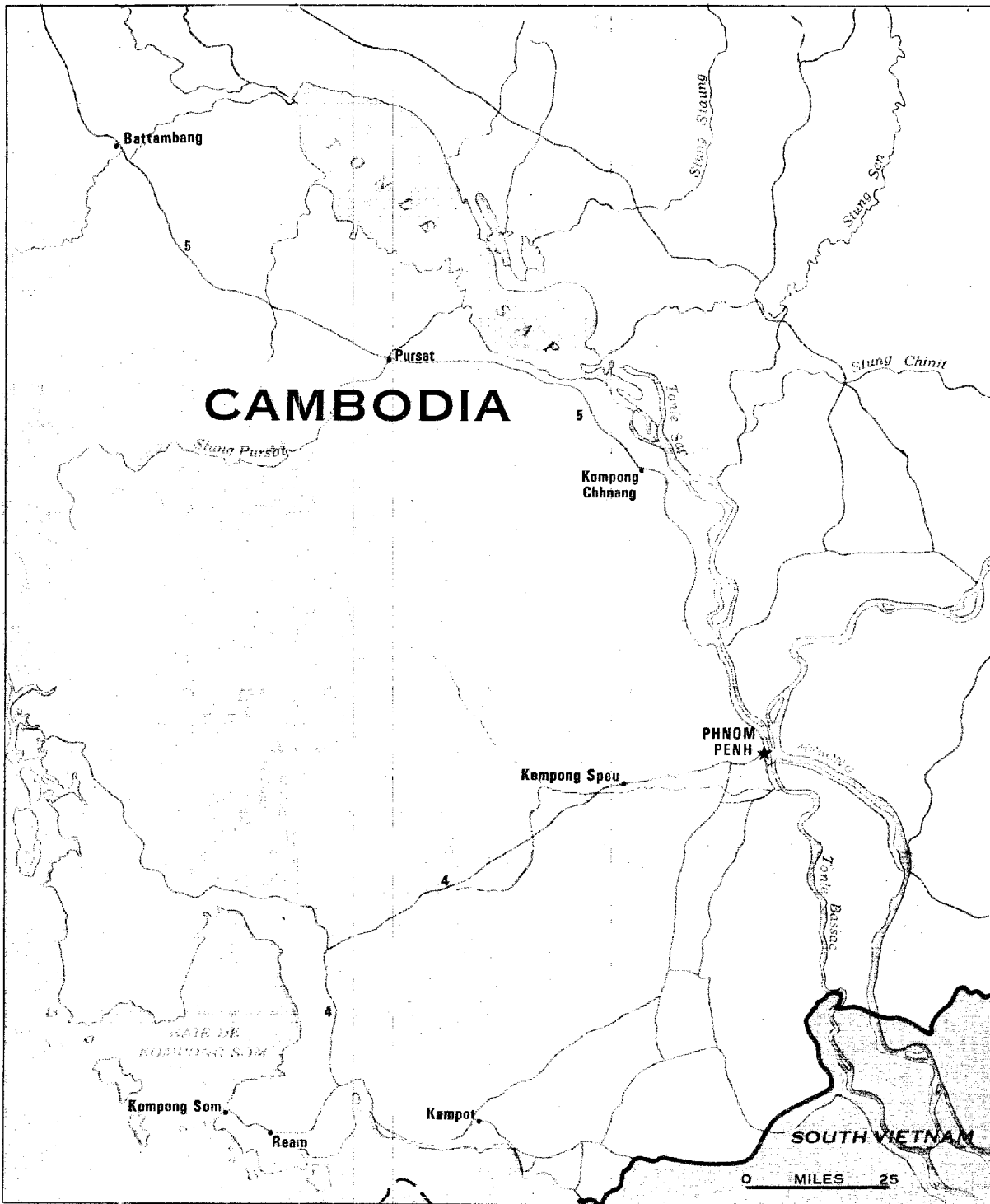
The region's northern sector has been generally quiet except for Dinh Tuong Province, where a number of Communist attacks have been reported along Route 4--Saigon's lifeline to the delta.

South Vietnamese military sources speculate that the rash of attacks in the lower delta, besides giving the Communists greater access to the rice harvests, may be intended to divert attention from a possible offensive by elements of the North Vietnamese 5th Division in the upper delta. Several battalions of the South Vietnamese 9th Division are being shifted from the lower to the upper delta to counter this threat.

There has been no comparable upsurge in Communist military activity elsewhere in South Vietnam, although some increase has been noted in Tay Ninh and other provinces around Saigon during the past few days.

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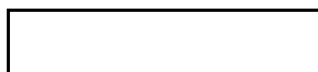
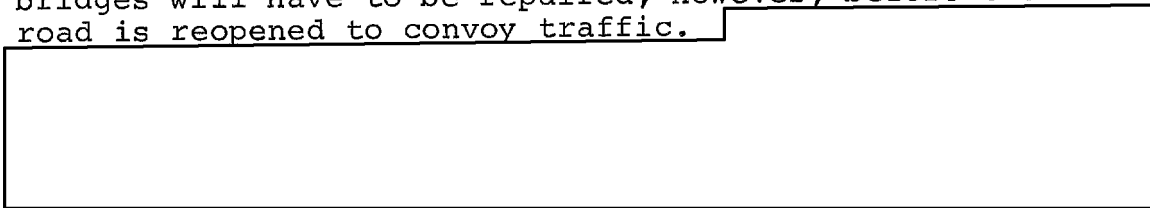
CAMBODIA

Government reinforcements have at least temporarily stabilized the situation in the Bassac River corridor southeast of Phnom Penh following heavy Communist attacks.

Khmer Communist attacks recently forced the abandonment of several additional positions along the Bassac River. Four battalions withdrew under pressure, apparently suffering heavy losses. In response, the government sent a brigade from the 1st Division to the area and provided additional naval, air, and artillery support. This appears to have slowed the Communist attacks for the time being.



In the northwest, Cambodian army forces have linked up to eliminate the recent interdiction on Route 5 between Kompong Chhnang and Pursat. Several downed bridges will have to be repaired, however, before the road is reopened to convoy traffic.



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MALAYSIA

Paramilitary police staged pre-dawn raids on Kuala Lumpur's two main university campuses yesterday, seeking to end the largest and most prolonged student demonstrations in recent memory. Several student leaders and university lecturers were arrested, bringing total arrests to over 1,200 since the protests began. Press reports indicate that the police withdrew this morning and that the situation is calm.

The students were originally protesting government neglect of Malay smallholder rubber farmers in the northwest, but the demonstrations gradually assumed a more general antigovernment tone. Students charged high officials with insensitivity to the needs of rural Malays and with widespread government corruption. They demanded greater responsiveness by the administration to the popular will. The students zeroed in on Prime Minister Razak's much-touted program of "Malaysia for the Malays," which is designed to dilute Overseas Chinese dominance of the economy; they charged that in practice it has become "Malaysia for the Rich Malays" and has given little help to the majority who live in the villages.

Although the protests did not develop anti-Chinese overtones, racial tensions are never far from the surface in Malaysia, particularly when economic issues are debated, and the government feared that continuing disorders could lead to communal violence. Razak has taken a no-compromise stand by refusing to recognize the student movement or to consider its demands and by accusing the students of trying to overthrow the government.

The government's hardline approach may provide only a temporary solution. The protesters represent a broad coalition of Malay student organizations, both secular and Islamic, and activist leaders now recognize that if they cooperate on broad nonideological issues, they can get large crowds of students into the streets.

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AUSTRALIA

Australia's economic downturn, probably the steepest among the smaller OECD countries, has worsened considerably since mid-year. Real GNP, after falling at a 5.3-percent annual rate in the second quarter, declined at a 12-percent annual rate in the third. Last year the Australian economy grew by roughly 4 percent.

Industrial output has declined steadily over the past six months, while unemployment has risen sharply. By October unemployment had reached 2.5 percent--up from 1.4 percent in mid-1973. Rising unemployment in the hard-hit auto and textile industries has already resulted in pressures for new restrictions on imports of these items. Australia's large farm and mining sectors have been hurt by the decline in foreign, mainly Japanese, demand, which absorbs a large share of their output. As a result, the trade balance is in deficit for the first time in years.

Although prices are currently rising at an annual rate of 22 percent, Canberra has relaxed its fight against inflation in favor of combating unemployment. To help bolster sagging domestic demand, corporate taxes have been cut, interest rates lowered, and restrictions on foreign borrowing relaxed. Instead of a small surplus, a deficit equal to 6 percent of budget outlays is now planned for the year ending June 1975.

Despite these measures, the slump is likely to extend well into 1975. The expansionary effects of the budget deficit will be at least partially offset by a larger current account deficit. Even with the corporate tax cut, domestic investment will remain sluggish, because most manufacturing industries apparently have substantial excess capacity.

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FOR THE RECORD

Greece: In yesterday's plebiscite on the monarchy, Greek voters cast their ballots in favor of a republic by a margin of more than two to one. The strong rejection of the monarchy should lay to rest what has been a controversial and divisive issue. The parliament, which is empowered to revise the constitution, may well appoint a provisional president while the new constitution is being written. Panayotis Kanellopoulos, a former premier, is the frontrunner for the interim assignment.

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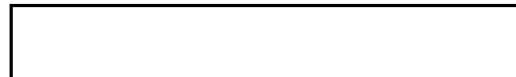
USSR: The manned Soviet spacecraft Soyuz 16 returned safely to earth early Sunday morning. The six-day mission of the spacecraft, launched last Monday, was designed to test the procedures the Soviet crew will have to perform during the joint Apollo-Soyuz mission scheduled for next July. In addition, the crew carried out a series of scientific and biological experiments. The mission apparently encountered no problems with the spacecraft that could affect the joint mission.

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